



Start-Ups: Importance and Role in the Economy

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Abstract

This paper examines the importance and the role that start-ups play in securing the future economic growth and development of a society, thereby concluding that Albania must do a lot more to afford start-ups the right and favorable environment for their flourishing. Start-ups are a relatively late comer to the Albania's innovation and business scene, and this definitely has a bearing on its development endeavors. As of today, Albania has about 88 start-ups per 1 million inhabitants, whereas the European Union average is of 250 start-ups per 1 million inhabitants. The paper takes a close look at the theoretical foundation and functioning of start-ups by referring to the most prominent studies conducted worldwide, as well as to their importance and role in generating economic growth and development by looking at various indicators, such as enticing industry disruptions, spurring innovation, encouraging investments, enhancing competition, offering new products and services, growing markets, job creation, etc.

Keywords: economic growth, innovation, job creation, start-ups

1. Introduction

It is a well-known fact that today national economies are in perpetual movement and continuous evolution. Economies are constantly changing and start-ups are undoubtedly one of the most important driving forces behind this phenomenon. Start-ups have the great potential to disrupt entire industries, spur innovation, encourage more investments, enhance competition, offer new products and services, grow markets, create new jobs, etc.

Start-ups are not to be confused with any other traditional business opening anew, operating, and trying to succeed in a given market. The extensive research undertaken on the subject generally considers a start-up as a business venture striving to offer to the market a completely new product or service, whereas a traditional business follows an already established pattern (Eisenmann, 2021; Mier, 2023). To put it differently, a start-up is a new business venture that is always built upon an innovative idea.

Albania today has about 88 start-ups per 1 million inhabitants (Council of Ministers of Albania, 2021). However, there are countries of comparable size to Albania that have a by far more vibrant start-up environment. The European Union average is of about 250 start-ups per 1 million inhabitants, but there are other countries that stand out with even more start-ups. For example, Estonia has more than 1 100 start-ups per 1 million inhabitants, while Lithuania has 500 start-ups for that number of inhabitants.

Start-ups are vital for sustaining the future development of an economy and, therefore, very important to guaranteeing the prosperity of a society in the years ahead. Today start-ups might look as simple or pretty wild and out-

of-this-world ideas, but in some years' time they will represent the new and unchartered path the economy will take. Start-ups are today the nascent foundation of the next generation's economy, and Albania is not an exception to this rule.

1.1 *What do start-ups stand for: A literature review*

A new venture of the start-up type is generally considered a temporary organization or institution in search of a profitable, measurable and scalable business model (Blank & Dorf, 2020; Szarek & Piecuch, 2018). Meanwhile, in regard to Albania's legal framework on start-ups, the definition that the Law no. 25/2022 "On the support and development of startups" stipulates for the start-ups is very close to the description that the scientific literature attributes them.

In this view, every start-up venture is in itself a new business venture, but not every new business venture is a start-up venture. The distinctive feature is the high uncertainty in which the start-up ventures operate. As long as the product or service being offered is completely new and unknown, you never know for sure how the market will react. New ventures of the start-up type usually pass through two phases of development, which are the experimental phase and the production phase. Today in the world, about 90 percent of start-ups fail and do not pass the experimental stage.

World experience shows that start-ups need support during the first experimental phase and this support is known as the "start-up ecosystem". The experimental phase generally lasts for five years. However, there are cases of start-ups that had a longer or even a shorter experimental phase, during which they needed the support of the start-up ecosystem. Such ecosystems in the world operate with clear legal and regulatory frameworks, with various partners and collaborators, with the involvement of public and private actors, as well as with incentives for promoting the right climate for the establishment and development of start-up ventures. In fact, the concept of ecosystem in economics and business is borrowed from ecology and the earliest definition of a business ecosystem was given by Moore (1993, 1996). According to him, a business ecosystem enables enterprises to "absorb resources of all kinds, attract capital, partners, suppliers and customers to build networks of cooperation" (Moore, 1993, p. 75).

Start-ups are very important for the development, growth and long-term sustainability of Albania's economy because they represent its future evolutionary direction. It is for this reason that these ventures should be encouraged and supported. Their crucial role is clearly stated in Albania's Business and Investment Development Strategy 2021-2027, envisaging the steps to encourage more innovation initiatives, allocation of more funds towards research and development, and the need to foster a friendlier environment for the development of start-ups.

1.2 *Innovation: The corner stone of start-ups*

Since the earliest of times, humanity has always tried to improve his life, simultaneously discovering that economic activity was the best way to achieve this major objective. Involvement in economic activity, regardless of its form or type, made a person an entrepreneur, while the very economic activity he engaged in gave life to entrepreneurship. Subsequently, entrepreneurship became part of the discussion about improving human life through economic activity, a concept that refers to the process of creation and continuous management of a business by the entrepreneur with the aim of generating as much profit as possible. This definition of entrepreneurship has not changed much and researchers continue to consider entrepreneurship as a process that basically has the desire and effort to increase the profit of the entrepreneur who manages the enterprise, a process that is always accompanied by the risk of unknowns that the market embodies (Smith, 1776/1904; Mill, 1848; Marshall, 1890; Lamb, 1959; Stevenson & Gumpert, 1986).

However, more contemporary researchers have added another feature to this definition, by considering entrepreneurship closely related to innovation. New business ideas, new or improved products or services, new or more efficient production processes, etc., otherwise known together as innovations, represent one of the drivers keeping the entrepreneurship engine moving forward because they offer to solve an unsolved problem or to bring to market a redesigned or a completely new and previously unknown product or service. This is a comprehensive description of the role that ventures arising from innovation or new business ideas play, and precisely for this reason many researchers, past and contemporary, agree with it (Schumpeter, 1911/1934; Birch, 1981; Kirchoff & Phillips, 1990; Baldrige & Curry, 2022).

2. Methodology

The methodology applied in the research here presented in this paper is the archival research methodology. Generally, the archival research methodology is comprised of a wide range of activities applied to facilitate the investigation of

documents and textual materials produced by and about organizations. In other words, archival methods are those that involve the study of the research, documents, and data that are created in the past.

2.1 *Purpose and objective, data collection*

In so far as the research presented in this paper is concerned, its purpose is to investigate and identify the importance and role that start-ups play in securing the growth and development of any given economy. In other words, the purpose is to find out whether does exist or not a strong foundation built upon past experience for encouraging the flourishing of start-ups.

In regard to the purpose, the attention is turned to the numerous studies conducted worldwide in the field of start-up, focusing on various development indicators, such as enticement of industry disruptions, promotion of innovation, encouragement of investments, enhancement of competition, new products and services, market growth, creation of jobs, etc.

By referring to the findings of numerous authors, the objective of the research presented in this paper is to identify what bearing start-ups have on each of the abovementioned development indicators.

Subsequently, the paper will present the conclusion reached, followed by some recommendations peculiar to Albania.

2.2 *Limitations*

The research presented in this paper is part of a broader study on the start-up ecosystem of Albania, undertaken in the framework of the PhD course followed at the Aleksander Moisiu University of Durres, Albania. Even though the abovementioned study is much larger in scope, this paper is confined to presenting only the role that start-ups play in economy, serving as a basis for their encouragement.

It might be viewed as a limitation, and it may very well be one, but the purpose of this paper was not to touch on the development of start-ups, which in fact depends on many factors.

On the other hand, the contribution of start-ups to a given economy — and this is the purpose of the research presented here — is also dependent on various local exigencies of each and every economy. One such local exigency, for example, is the size of the economy. This paper recognizes these as being some form of limitation to the research presented here.

However, since the research on the role of start-ups in the economy of Albania is very limited, if not totally absent, the purpose here is to present the core of the international research on the economic benefits of the start-ups with the recommendation for Albania to emulate them.

3. **Research Findings: Importance and Role of Start-Ups in Economy**

The comparison between established corporations and startups in influencing the new directions of economic development is a notable aspect of the business world. Startups play a significant role in driving economic growth through their innovative approaches. Overall, start-ups have the great potential to disrupt entire industries, spur innovation, encourage more investments, enhance competition, offer new products and services, grow markets, create new jobs, etc.

3.1 *Disrupting industries and spurring innovation*

In a world where innovation and technology are advancing fast, start-ups have emerged as the disrupting factor, shaking up well-established industries in ways previously thought unimaginable. These dynamic companies are breathing new life into traditional sectors, propelling them into the future.

Start-ups are synonymous with innovation, and this mindset is their secret. With an innate ability to identify gaps in existing markets, start-ups take on the challenge of transforming conventional practices and delivering solutions that are not only effective, but also entirely new and very efficient. Their willingness to challenge the status quo makes them the driving force behind industry evolution, therefore being the embodiment of what Schumpeter referred to as the “creative destruction” (Schumpeter, 1911/1934).

Traditional industries often come with established players and rigid structures. Start-ups, on the other hand, thrive on disruption. They are not afraid to challenge established beliefs and are willing to work quickly based on market

feedback. This willingness to adapt gives start-ups a unique advantage, allowing them to respond to changing consumer demands and preferences (Josemann, 2020).

Start-ups and technology have partnered to create game-changing innovations. Start-ups are utilizing cutting-edge technology to streamline procedures, increase efficiency, and create value like never before. These tech-driven solutions are driving traditional industries into the digital age.

Start-ups have championed a customer-centric approach, putting the needs and preferences of consumers at the forefront of their strategies. This focus on user experience has led to the creation of tailor-made solutions that cater to specific points. By actively listening to customers and iterating based on feedback, startups are redefining industry standards and expectations.

3.2 *Encouraging investments*

The start-up revolution would not have been possible without the influx of public and private capital. These financial injections provide start-ups with the resources needed to scale rapidly and bring their disruptive ideas to life. As start-ups grow, they attract attention from industry veterans, leading to collaborations that fuse traditional expertise with fresh perspectives.

Rather than a battle for dominance, start-ups and traditional industries are finding ways to coexist and collaborate. Start-ups inject new ideas and energy, while established players offer industry wisdom and resources. These synergies create a harmonious ecosystem where innovation can thrive without leaving behind the rich heritage of traditional practices. All this new development path is made possible by huge investment, that actually benefit the economy as a whole.

During the last five years up to 2023, the European Union alone has invested more than 300 billion US dollars in creating a better environment for the development of start-ups (Djurickovic, 2023). This enormous investment of public fund is further increased by the added private investments, and these huge financial resources injected in economy definitely bring about benefits.

3.3 *Enhanced competition, new products and services, market growth*

Innovative products and services introduced by start-ups contribute to market growth and offer consumers more choices. Start-ups are recognized for their role in driving innovation, which can lead to economic growth and diversification. The Federal Ministry of Germany for Economic Affairs and Climate Action considers start-ups as a crucial factor towards market growth and enhancing competition as a result of the new products and services offered (BMWK, 2017).

By introducing new ideas that challenge traditional industries, start-ups create new opportunities for investment and industry development. This cycle of innovation can have positive effects on the economy, such as increased job opportunities and enhanced industry competitiveness. The introduction of new concepts and technologies by start-ups can invigorate markets, promoting healthy competition and improvements in consumer offerings (Enginsoy, 2023). Through their innovative approaches, start-ups can significantly impact the expansion and prosperity of the economy, influencing future industry landscapes.

Competition in the market intensifies with the introduction of new players offering innovative products and services. Start-ups play a key role in driving economic dynamism through their innovative approaches. By disrupting traditional market dynamics, start-ups stimulate economic growth and foster innovation. The competition pushes established companies to improve their offerings, resulting in a diverse array of consumer choices and enhanced quality. Consumers benefit from a broader range of products and services, as well as competitive pricing options. The presence of start-ups creates a more competitive market environment, leading to improved overall value and quality for consumers. The competition driven by start-ups not only benefits consumers but also contributes to economic advancement by promoting innovation and market vitality.

3.4 *Job creation*

Start-ups play a significant role in job creation and economic impact by driving employment growth and fostering innovation across industries. Small businesses, particularly start-ups, contribute to job creation, with approximately 1.5 million jobs added annually in the United States of America, whereas Germany estimates that around 350 000 new jobs created annually are closely linked to the emergence of start-ups (BMWK, 2017).

Worldwide, these new ventures account for two-thirds of net new jobs created, helping to reduce unemployment rates and stimulate economic activity. Successful start-ups not only create employment opportunities but also attract investments that can disrupt industries and create additional job prospects. The presence of start-ups in local economies not only boosts economic activity but also enhances job prospects for professionals.

As start-ups grow and expand their reach, they often engage with technology providers and business consultants to optimize their operations and scale efficiently. The integration of these external services creates an ecosystem of interconnected businesses, leading to an additional surge in job openings in these allied sectors. The ripple effect of startup-driven employment not only strengthens local economies but also bolsters national labor markets. Beyond the numbers, the job opportunities offered by start-ups empower individuals to actively participate in the economy, leading to increased purchasing power and higher disposable income. As more people find employment through start-ups and related industries, consumer spending experiences an upswing, driving economic growth further. The additional income generated by these employed individuals also translates to increased tax revenue for the government, which can be reinvested in public services and infrastructure, benefiting the community as a whole.

4. Discussion and Conclusions

In summary, start-ups play a significant role in driving economic growth by creating job opportunities, fostering innovation, attracting investments, and enhancing market competition. Their influence on expanding markets and offering consumers a wider range of choices is substantial, contributing significantly to the overall present growth and future economic development stability. By introducing disruptions in industries and opening doors for new sectors to develop, startups actively shape a robust economic environment for upcoming generations.

The findings presented above — even though mostly focused on the European Union countries and the United States of America — clearly demonstrate the essential contribution that startups give in fueling economic growth and prosperity. Subsequently, there is doubt about the positive effects that start-ups bring to the present economic scene, as well as for the future implications.

4.1 Conclusions

Exactly for the abovementioned reasons, Albania must do a lot more to encourage the development of start-ups, since they have an important role for securing the future progress and prosperity of the society. This is the overall conclusion and an all-encompassing recommendation.

Albania lags behind many European countries in relation to the development of start-ups. Albania lags behind even some of the Western Balkan countries in that area. A very simple and clear illustration of this is the Law no. 25/2022 "On the support and development of startups", which was approved by the Assembly of Albania only in early 2022. Prior to two years ago, Albania had no legal framework relating to the start-ups and no schemes in place to encourage and support the development and growth of start-ups. The abovementioned law does establish a favorable regulatory and institutional framework for the creation and development of startups, but the funding is still far off from what it should be. For the 2024, the fund approved by the Government of Albania in favor of start-ups was only about 3 million euros.

It is obvious that Albania must greatly improve the funding of start-ups, but the policies should not be confined to just that. A lot must be done towards building the much-needed networks with start-up facilitators across the European Union in order to exchange experiences and attract investments. Being a rather small country, Albania needs to be part of the bigger networks for the local start-ups to succeed.

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